

School Finance Formula Review Interim Committee

October 5, 2009

School District Property Taxes

Presented by:

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Property Tax Presentation

- Property Tax/State Aid Overview
- School Finance Property Taxes
- Per Pupil Valuations/Property Tax Variances
- Additional Levy Breakdown
- SAVE/PTER Impact
- TIF
- Property Tax Alternatives

Property Tax/State Aid Overview

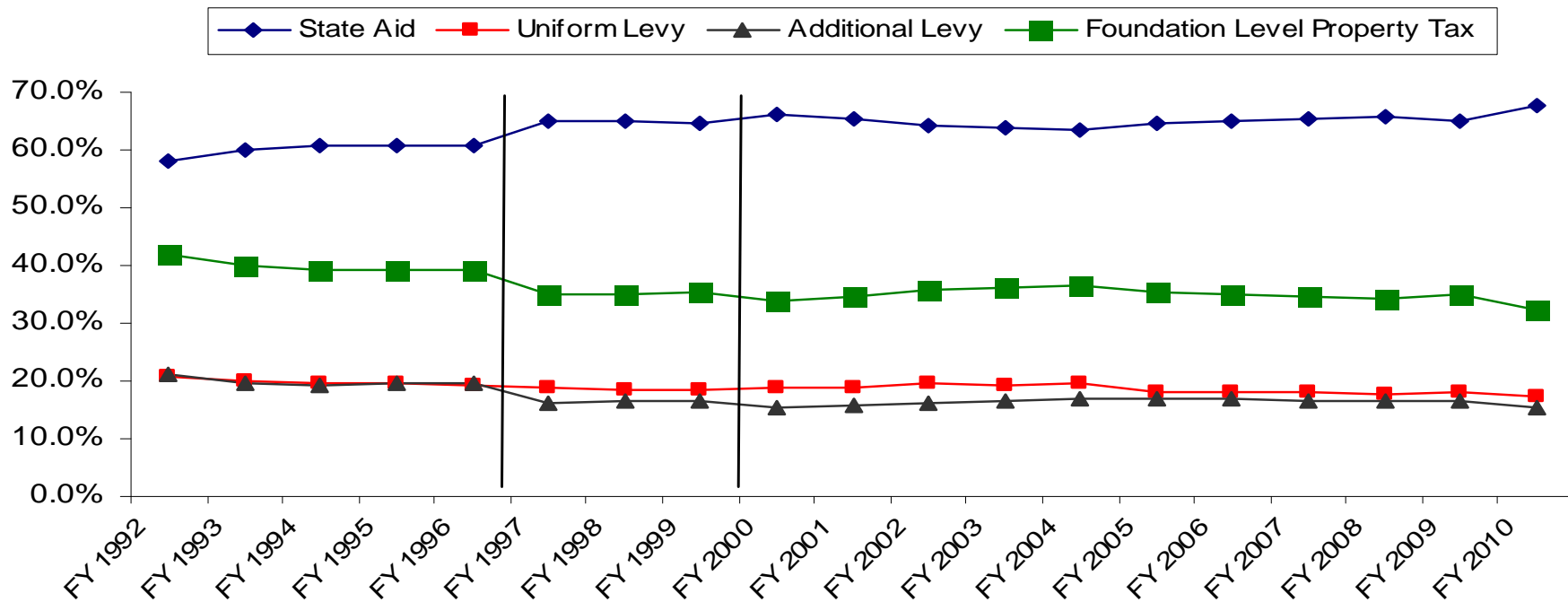
Brief History – School Aid Formula Property Tax Relief

- Through 1960's – local property funding
- 1970's – State aid/property tax funding
- 1989 – Increased property tax relief
- FY 1992 – More property tax relief
 - ◆ Regular Program Foundation Level (83.0%)
 - ◆ Special Education and AEA Foundation Levels (79.0%)
- FY 1997 – Regular Program Foundation Level to 87.5%
- FY 2000 - Special Education Foundation Level to 87.5% and Talented and Gifted added to district cost per pupil
- FY 2007 – Adjusted Additional Property Tax Levy Aid
- FY 2009 - State Sales/Use Tax for School Infrastructure
 - ◆ Secure an Advanced Vision for Education (SAVE) Fund
 - ◆ Property Tax Equity and Relief (PTER) Fund (FY 2011)

School Finance Formula

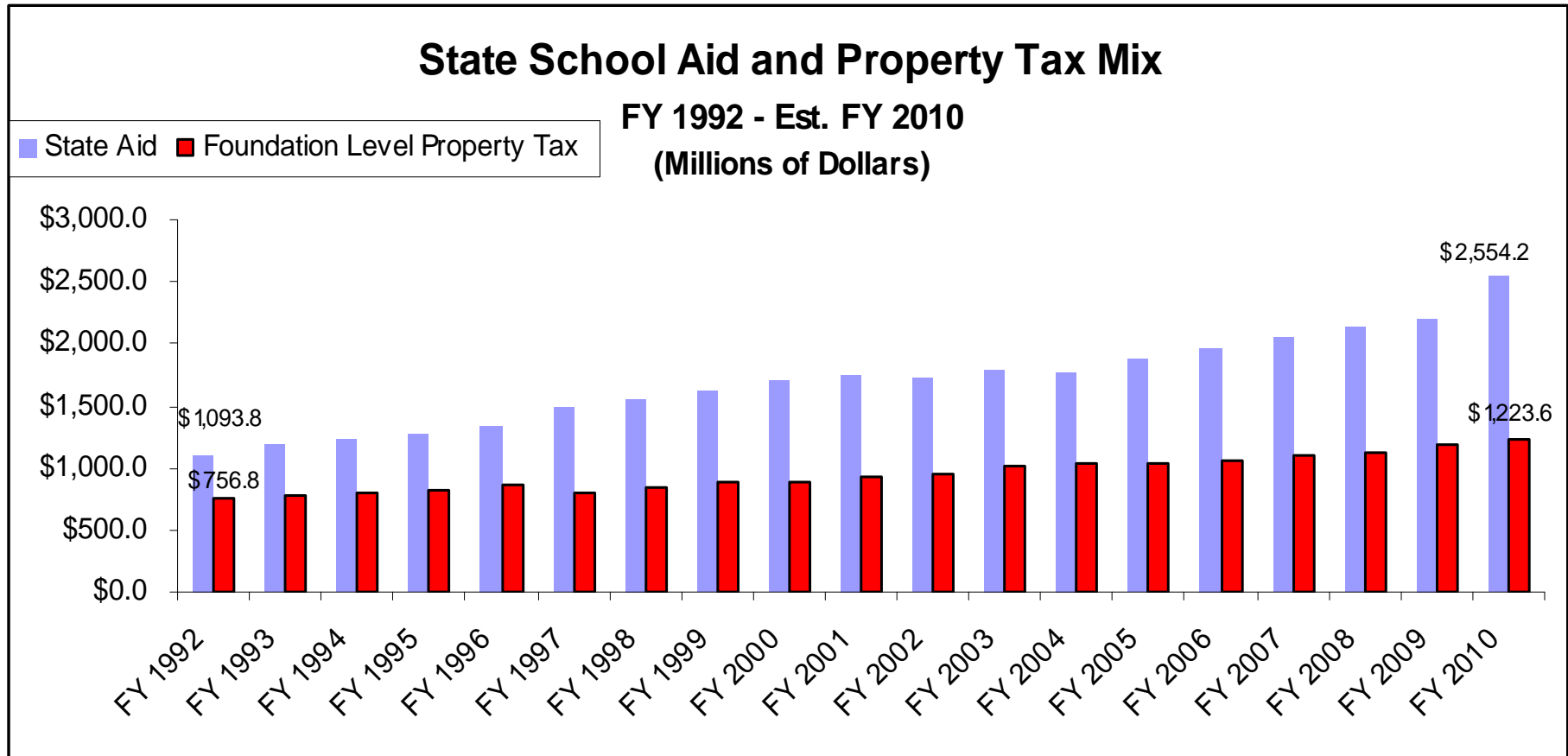
State Aid Property Tax Mix

**Percentage of School Formula Funding
FY 1992 to Est. FY 2010**



School Finance Formula

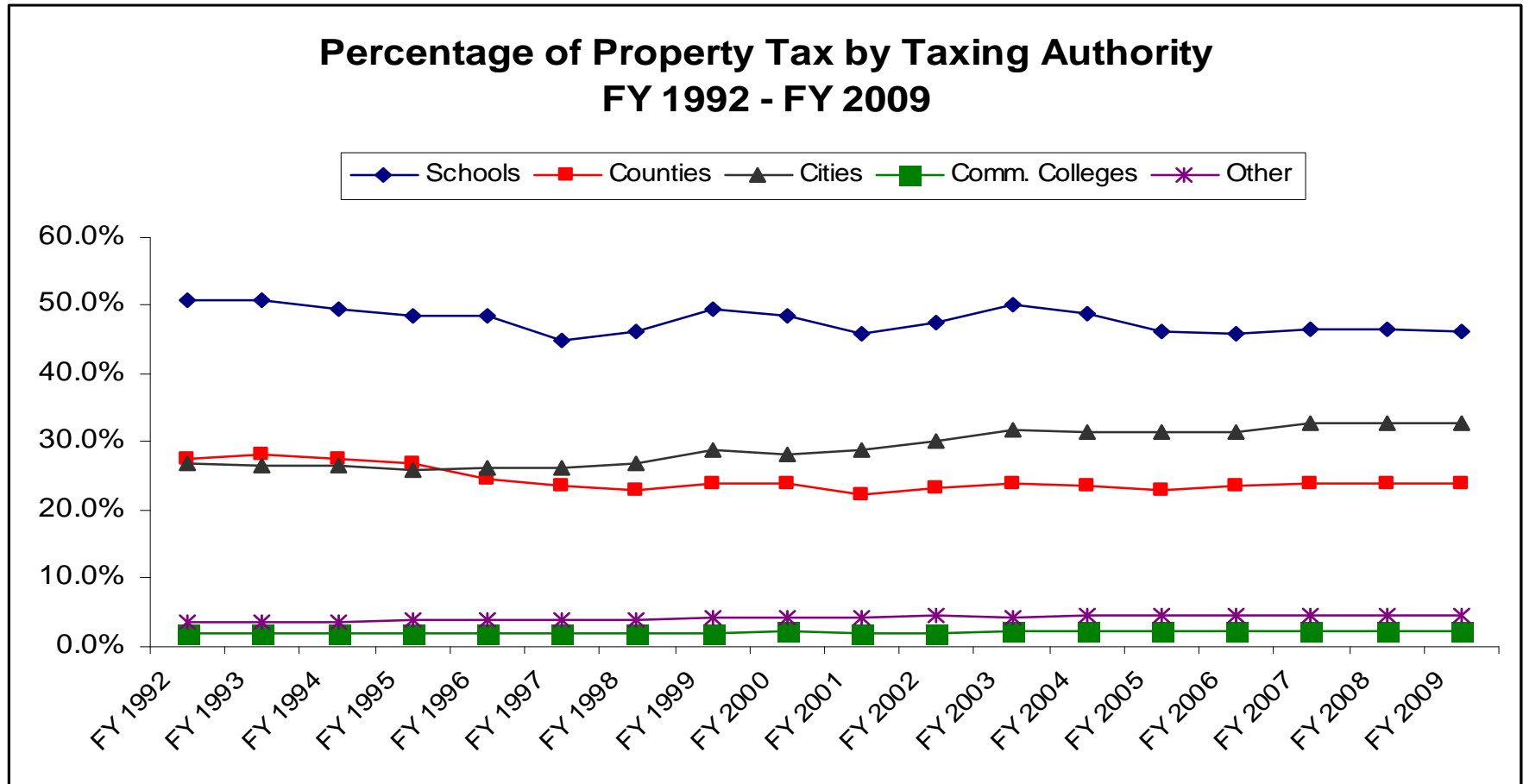
State Aid Property Tax Mix – Total Funding



School Finance Property Taxes

School District Property Taxes

Comparison to Other Taxing Authorities



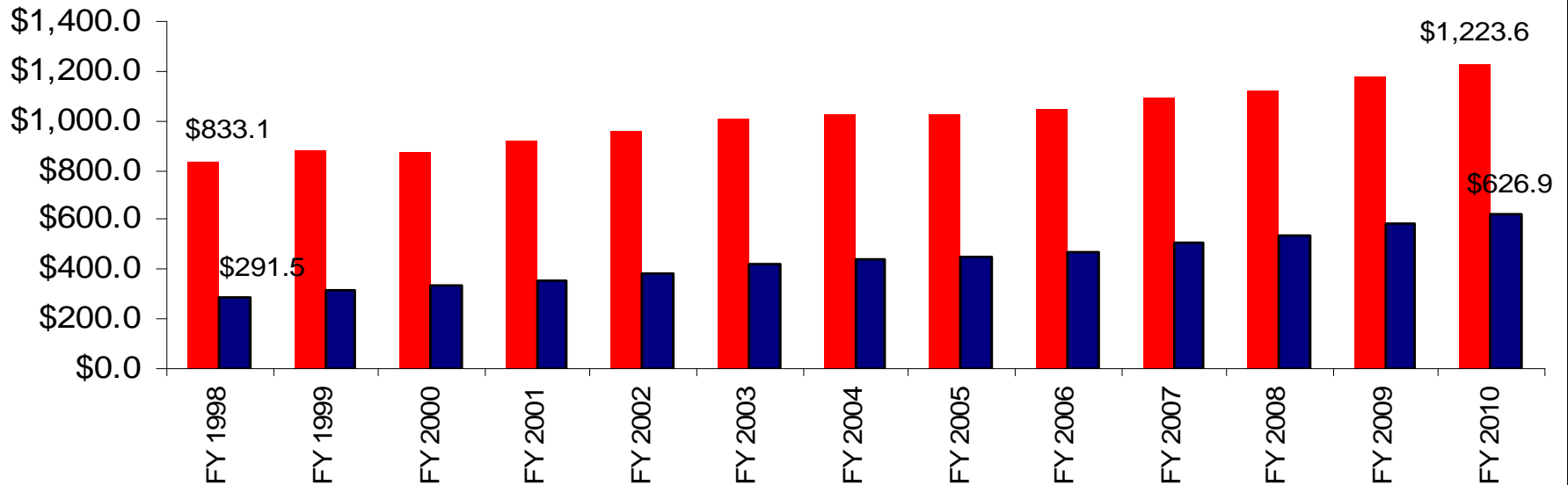
Total School District Property Tax

FY 1998 – FY 2010

School Levies - FY 1998 to Est. FY 2010

(Dollars in Millions)

■ School Foundation ■ Other School Levies Total



Levies to Fund Combined District Cost

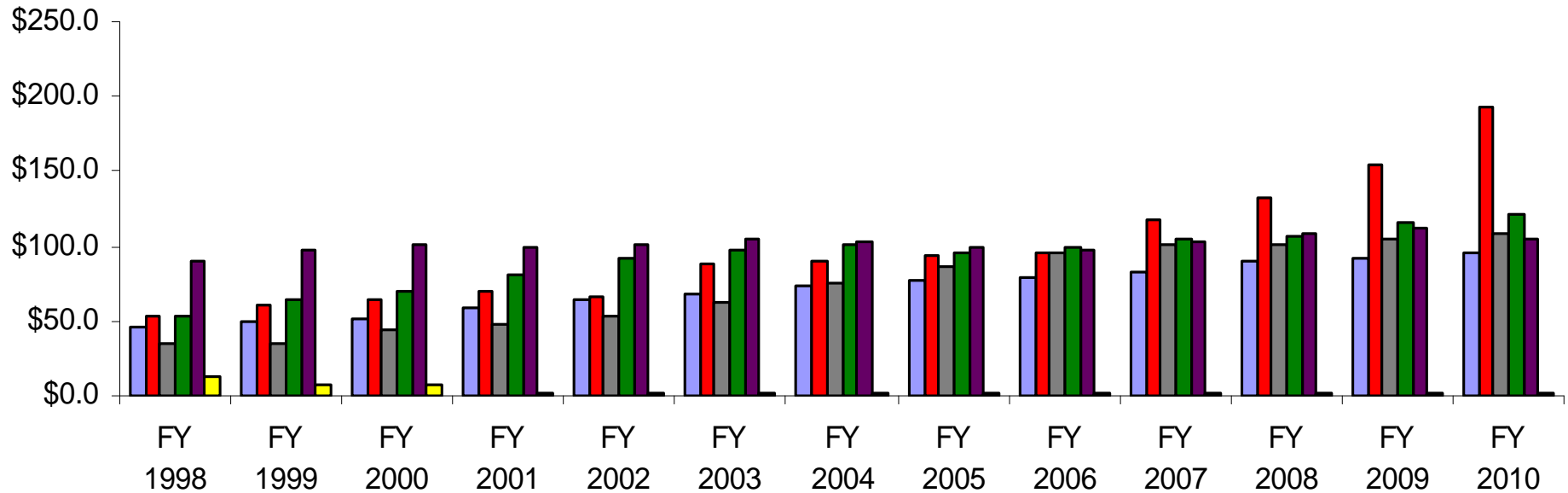
- Uniform Levy
 - ◆ \$5.40/\$1,000 of taxable valuation
 - ◆ \$648.2 million in FY 2010
- Additional Levy
 - ◆ Encompasses many pieces/programs
 - ◆ Levy amount has funding cap but not rate restricted
 - ◆ \$575.6 million in FY 2010
 - ◆ More on the Additional Levy later

Other School Levies

FY 1998 – FY 2010

Other School District Levy Amounts (Dollars in Millions)

■ Instructional Support/Ed. Improvement
 ■ Cash Reserve
 ■ Management
 ■ PPEL
 ■ Debt
 ■ Other



Instructional Support Program Levy

Instructional Support Program

- ◆ Up to 10.0% of the Regular Program Budget
- ◆ Board approved for five years
- ◆ Voter approved for ten years
- ◆ Part of School District's General Fund
- ◆ Funded through Local Tax/State Aid* mix

FY 2010:

- ◆ 341 Districts - \$189.9 million
- ◆ *State Aid - \$0.0 (Standing amount = \$14.4 million [frozen])
- ◆ *ARRA Education Stabilization - \$13.1 million
- ◆ Property Tax - \$95.1 million
- ◆ Income Surtax - \$81.7 million (283 Districts)
- ◆ \$51.3 million additional State Aid to “fully” fund

Discretionary - Non General Fund

- Management Levy
- Physical Plant and Equipment Levy (PPEL)
- Public Education and Recreational Levy (PERL) – also referred to as Playground and Equipment Levy
- Debt Levy

Management Levy

Optional Levy authorized by the School Board
FY 2010:

- Use restricted – not rate restricted
 - ◆ Liability insurance premium costs
 - ◆ Tort judgments
 - ◆ Self insurance (not health insurance)
 - ◆ Loss of property
 - ◆ Early retirement
- 355 districts
- \$104.3 million

Physical Plant and Equipment Levy

FY 2010:

- Board Approved - Levy rate of \$0.33
 - ◆ 335 districts
 - ◆ \$39.7 million (property tax)
- Voter Approved - Levy rate of \$1.34
 - ◆ 248 districts (\$92.3 million)
 - ◆ \$81.6 million property tax
 - ◆ \$10.6 million income surtax (86 districts)

Public Education and Recreational Levy (PERL)

Also known as the Playground Levy.

FY 2010:

- Voter approved
- Levy rate up to \$0.135
- Remains in place until rescinded by the voters
- 18 districts
- \$2.1 million

Bonds/Debt Service

- Voter approved – requires 60.0% approval
- Maximum of 20 years
- Cannot exceed \$2.70/\$1,000, unless:
 - ◆ Voters approved higher rate specified on ballot (but cannot exceed \$4.05/\$1,000 taxable valuation)
- \$105.5 million in FY 2010 (195 districts and 7 previous dissolved/reorganized districts)

Cash Reserve

- Provides “cash” behind spending authority
- Property taxes Levied for:
 - ◆ Cash flow
 - ◆ State Aid, property tax shortfall
 - ◆ Modified Allowable Growth (MAG)
 - ◆ Included in district’s General Fund
- \$194.3 million (322 districts) in FY 2010

Per Pupil Valuations/Property Tax Variances

Property Rich vs. Property Poor (Example)

- Comparison of Two Districts
 - ◆ Each with 1,000 Students
 - ◆ Each generating \$5.8 million through formula
- District A
 - ◆ Property rich
 - ◆ \$750,000 taxable valuation per pupil
- District B
 - ◆ Property poor
 - ◆ \$150,000 taxable valuation per pupil

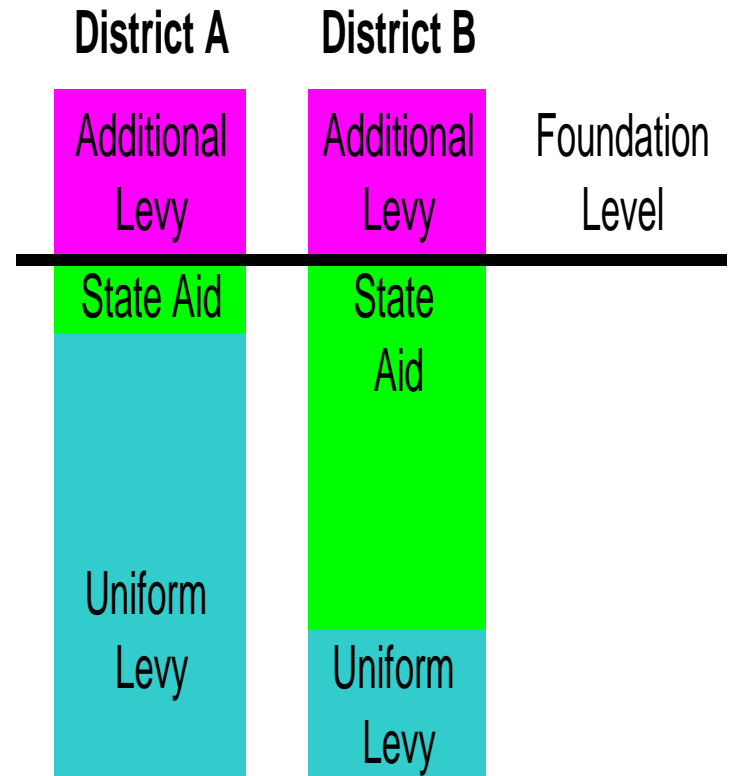
Property Rich Vs. Property Poor Example

- District A

- ◆ Property rich
- ◆ Total funding = \$5.8 million
- ◆ Uniform Levy = \$4.1 million
- ◆ State Aid = \$1.0 million
- ◆ Additional Levy = \$0.7 million

- District B

- ◆ Property poor
- ◆ Total funding = \$5.8 million
- ◆ Uniform Levy = \$0.8 million
- ◆ State Aid = \$4.3 million
- ◆ Additional Levy = \$0.7 million



Property Rich Vs. Property Poor (Additional Levy)

District A

Additional
Levy

District B

Additional
Levy

- Additional Levy totals \$0.7 million for both districts, BUT:
- Additional Levy rates are different
- Additional Levy not rate restricted – property tax rate is based on amount generated from the school aid formula

District A

- Property rich
- Additional Levy rate = \$0.961

District B

- Property poor
- Additional Levy rate = \$4.807

Difference in Additional Levy rate is \$3.845

Property Rich Vs. Prop. Poor (More Examples)

Physical Plant and Equipment Levy (PPEL) - \$1.67 max. rate

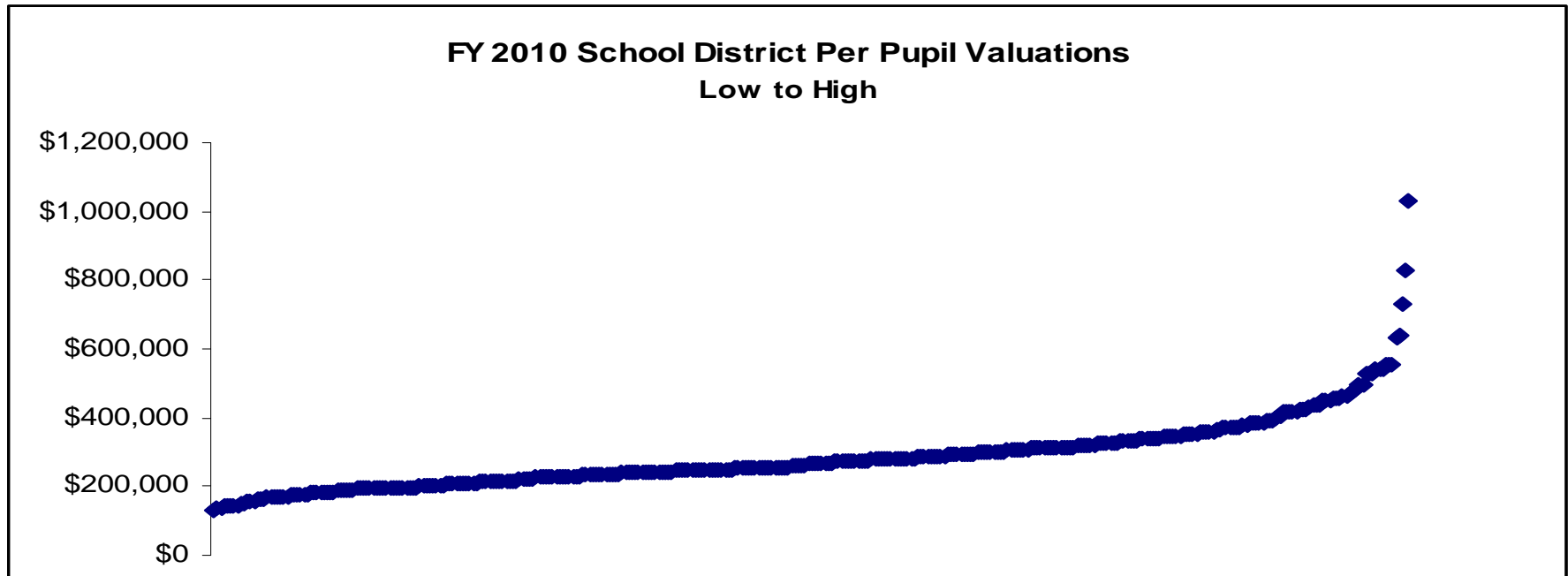
- District A - \$1.25 million from \$1.67 PPEL rate
- District B - \$250,000 from \$1.67 PPEL rate
- Difference: \$1.0 million for same size districts

Management Levy - No levy rate restriction (use restricted)

- District A and District B each have \$150,000 for the Mgmt. Levy
- District A - Management Levy rate = \$0.200
- District B - Management Levy rate = \$1.000
- Difference: \$0.80 per \$1,000 of taxable valuation

In General – District B either doesn't generate as much funding from capped levy rates or has higher tax rate to generate similar levy amounts.

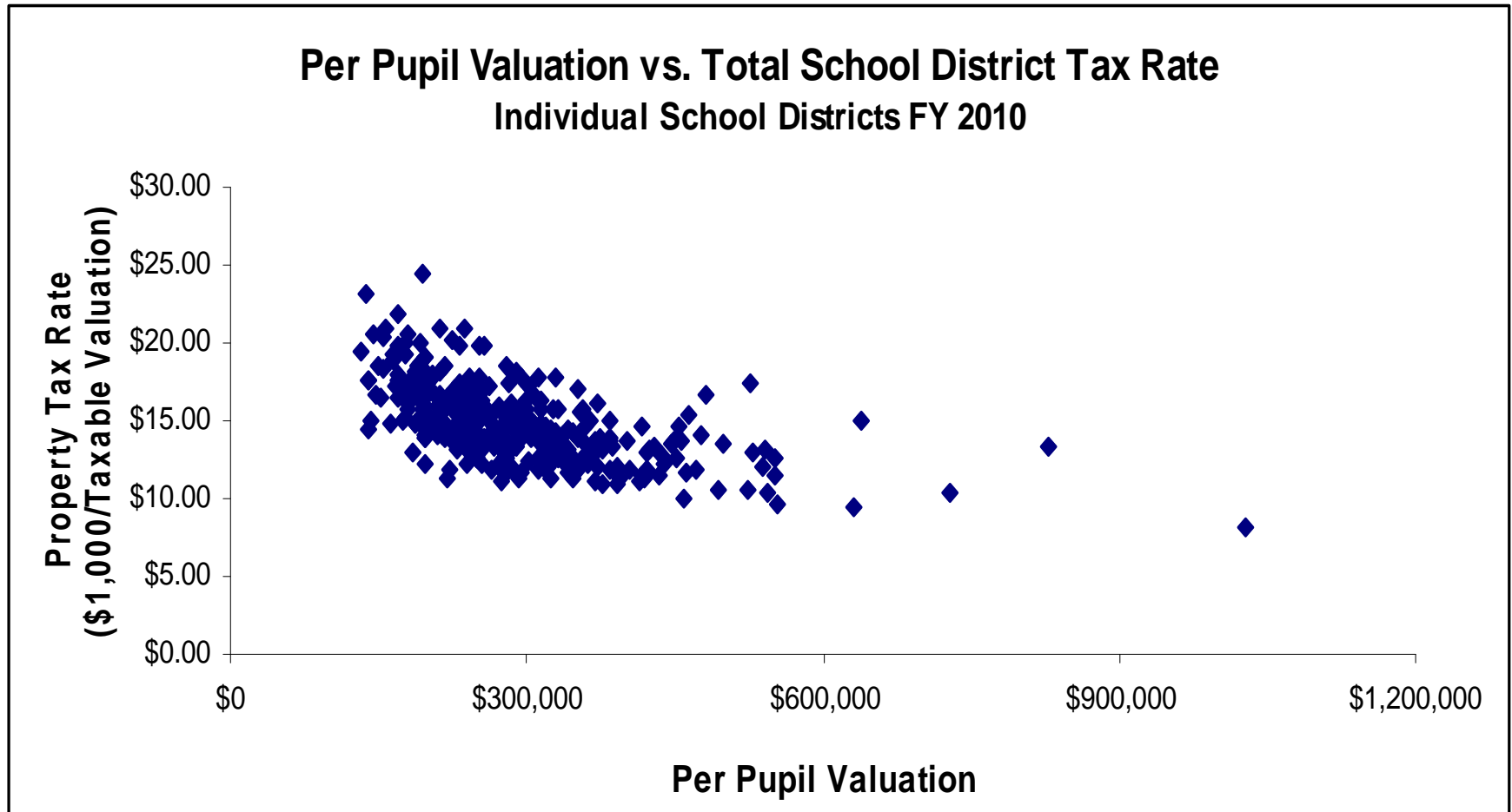
Iowa School District Per Pupil Valuations



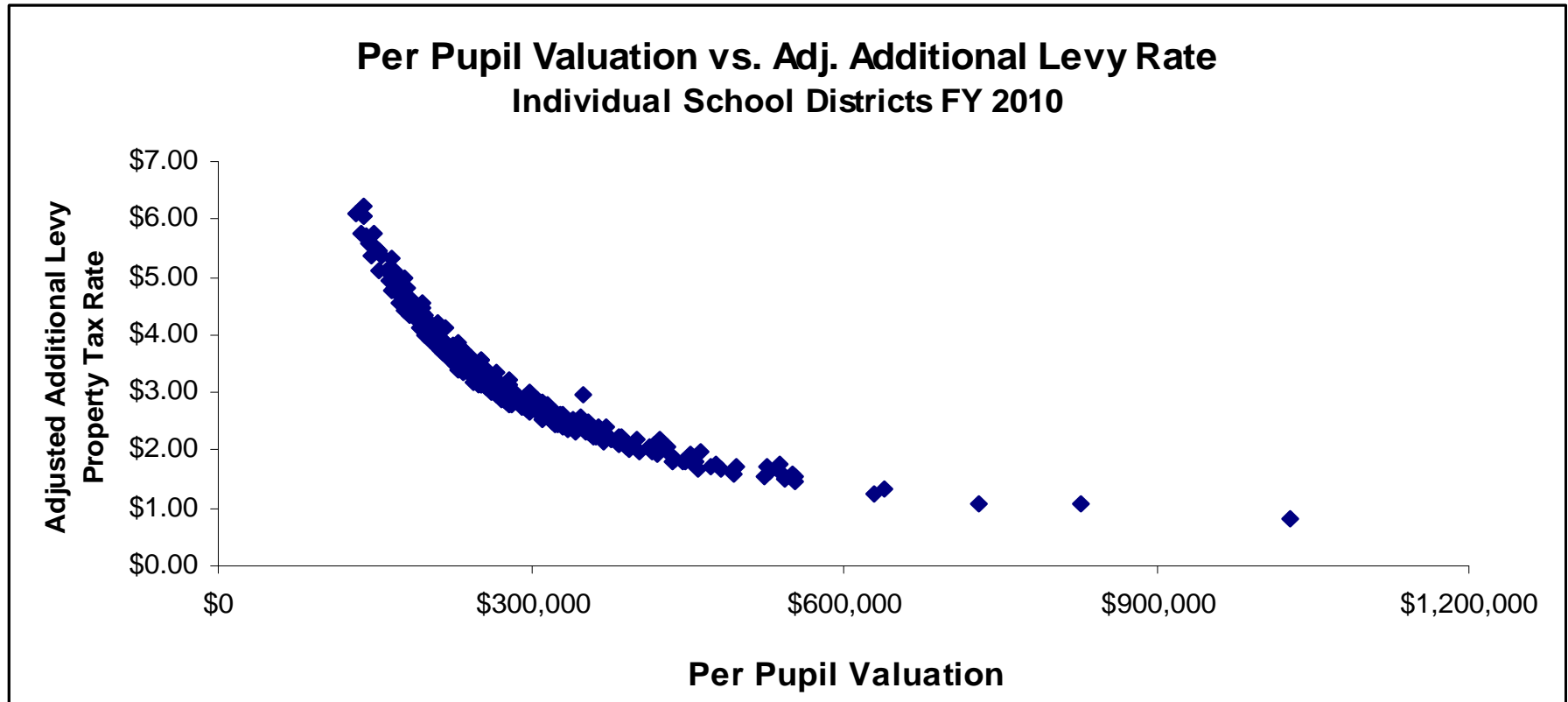
- Maximum = \$1,028,390
- Minimum = \$132,460
- Range = \$895,930

- Average = \$251,819
- Median = \$266,844
- 201 Districts > Average
- 160 Districts < Average

Per Pupil Valuations and Property Tax Rates



Per Pupil Valuations vs. Adj. Add. Levy



- Shows direct correlation between Per Pupil Valuation and Tax Rate
- More to follow on adjusted Additional Levy

Per Pupil Valuations - Tax Rates

In general:

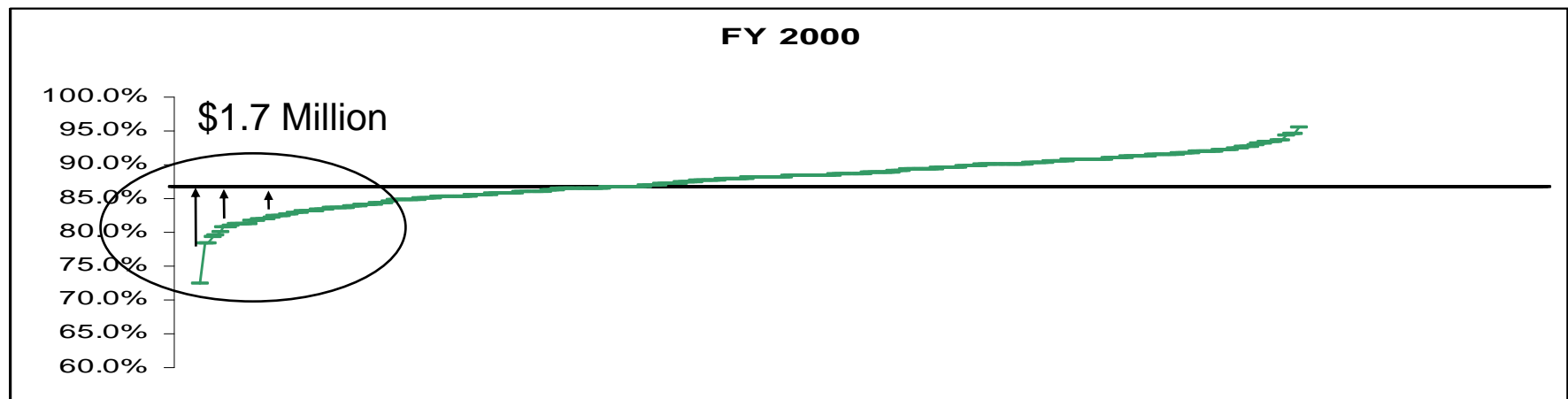
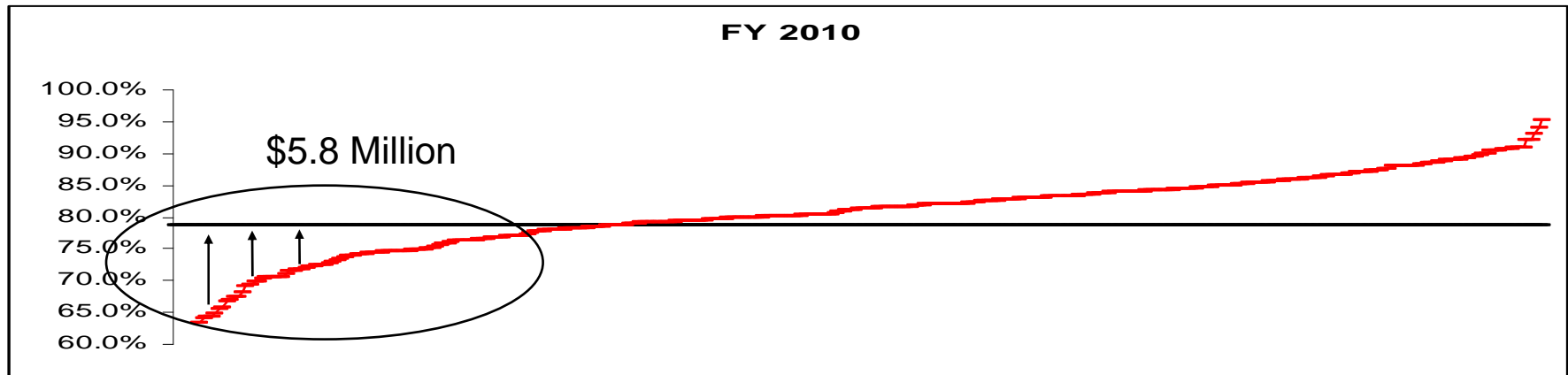
- School Districts with Higher Per Pupil Valuations:
 - ◆ Generate more tax dollars at a fixed property tax rate
 - ◆ Will have a lower property tax rate for levies with no capped rates
 - ◆ Will receive less State aid through the foundation formula
- School Districts with Lower Per Pupil Valuations:
 - ◆ Generate less tax dollars at a fixed property tax rate
 - ◆ Will have a higher property tax rate for levies with no capped rates
 - ◆ Will receive more State aid through the foundation formula
- Does this impact School District decisions for discretionary Programs funded locally?

Instructional Support Program Funding Inequity

Issue:

- State aid/Local Tax funding mix is based on per pupil valuations
- Overall State Aid would fund approximately 25.0% of the Program
- School Districts with lower per pupil valuations would receive more in State aid
- School Districts with higher per pupil valuations receive more from local funding
- But, State aid has been capped
- Result – districts with lower per pupil valuations receive less funding in proportion for the Instructional Support Program.

Instructional Support Program Funding Inequity



Variance of funding is increasing

Additional Levy Breakdown

Additional Levy – Foundation Components

The Additional Levy is comprised of several components:

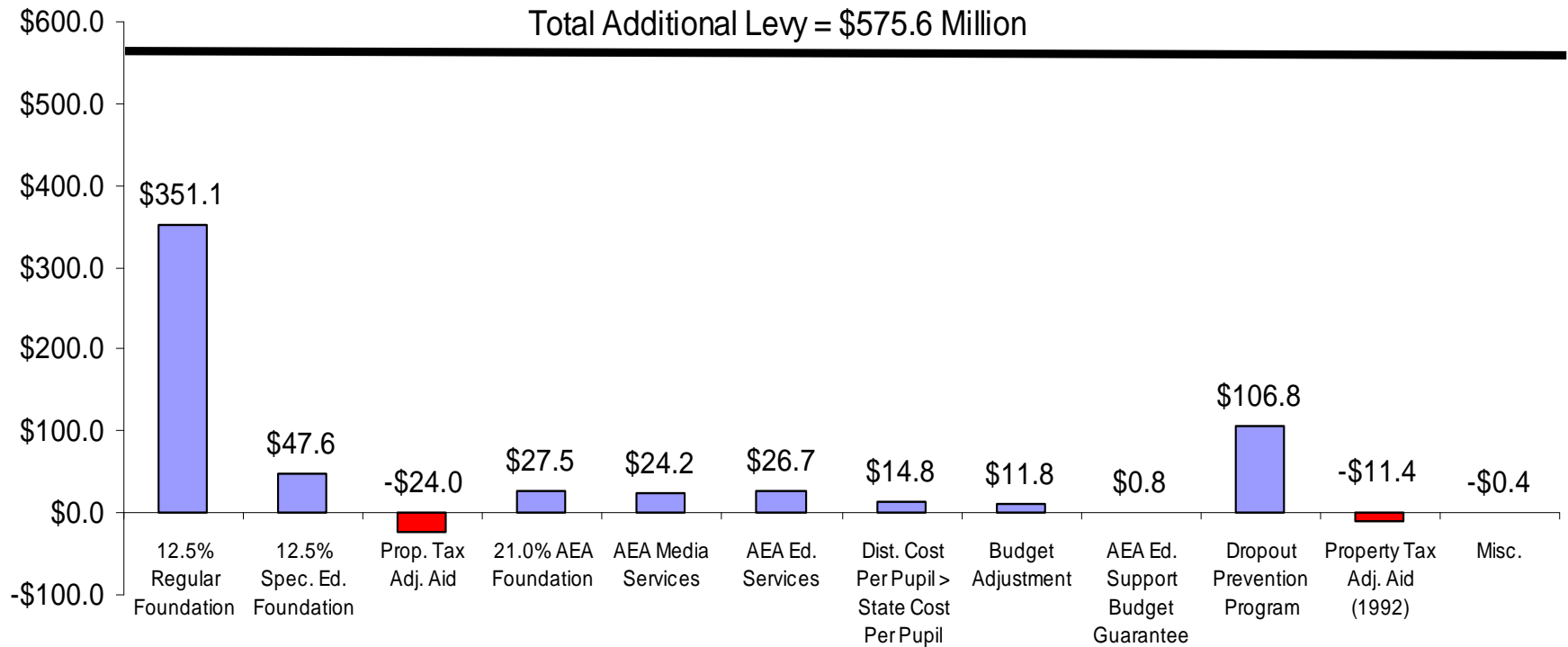
- Regular Program Foundation – 12.5%
 - ◆ \$351.1 million in FY 2010
- Special Education Program Foundation – 12.5%
 - ◆ \$47.6 million in FY 2010
- Property Tax Adjustment Aid
 - ◆ \$24.0 million appropriation in FY 2010
 - ◆ Impacts Regular Program and Special Education Foundation Programs
 - ◆ Lowered adjusted additional levy rates in 73 districts
- Area Education Agency (AEA) Foundation – 21.0%
 - ◆ \$27.5 million in FY 2010

Additional Levy – Other Components

- AEA Media Services (\$24.2 million)
- AEA Education Services (\$26.7 million)
- District Cost Per Pupil > State Cost Per Pupil (\$14.5 million)
- Budget Guarantee/Adjustment for School Districts (\$11.8 million – 142 districts)
- AEA Ed. Support Budget Guarantee (\$0.8 million – 133 districts)
- Dropout Prevention Program (106.8 million – 334 districts)
- Property Tax Adjustment Aid from 1992 (\$ -11.4 million – 303 districts)
- Miscellaneous (\$ -0.4 million)

School Aid Formula FY 2010 Additional Levy Components

Dollars in Millions



Secure an Advanced Vision for Education (SAVE) and Property Tax Equity and Relief (PTER) Impacts

SAVE/PTER

● SAVE

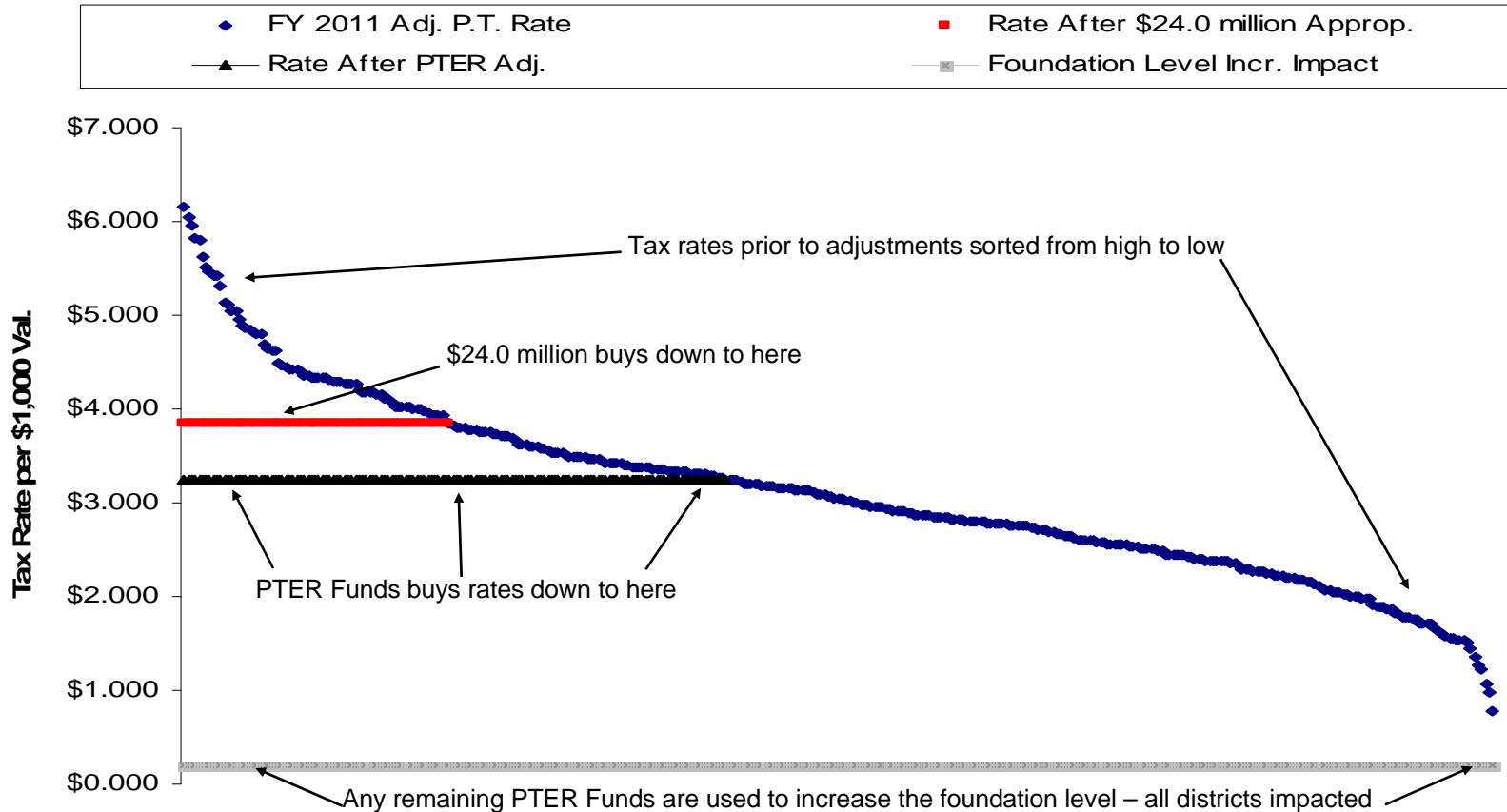
- ◆ State sales/use tax for school infrastructure
- ◆ Distribution formula based on SILO distribution
- ◆ By 2014, per pupil funding will be equal
- ◆ Revenue purpose statement
- ◆ FY 2009 is estimated at \$357.0 million

● PTER

- ◆ Excess after SAVE distribution
- ◆ Property tax relief through school aid formula
- ◆ FY 2009 PTER Funds used for FY 2011 property tax relief
- ◆ Estimated FY 2009 PTER Funds totaled \$26.0 million

FY 2011 PTER/Property Tax. Adj. Aid

Example: FY 2011 Property Tax Adjustments



Tax Increment Financing (TIF) and the Impact on School District Property Taxes

TIF / Urban Renewal – Brief Overview

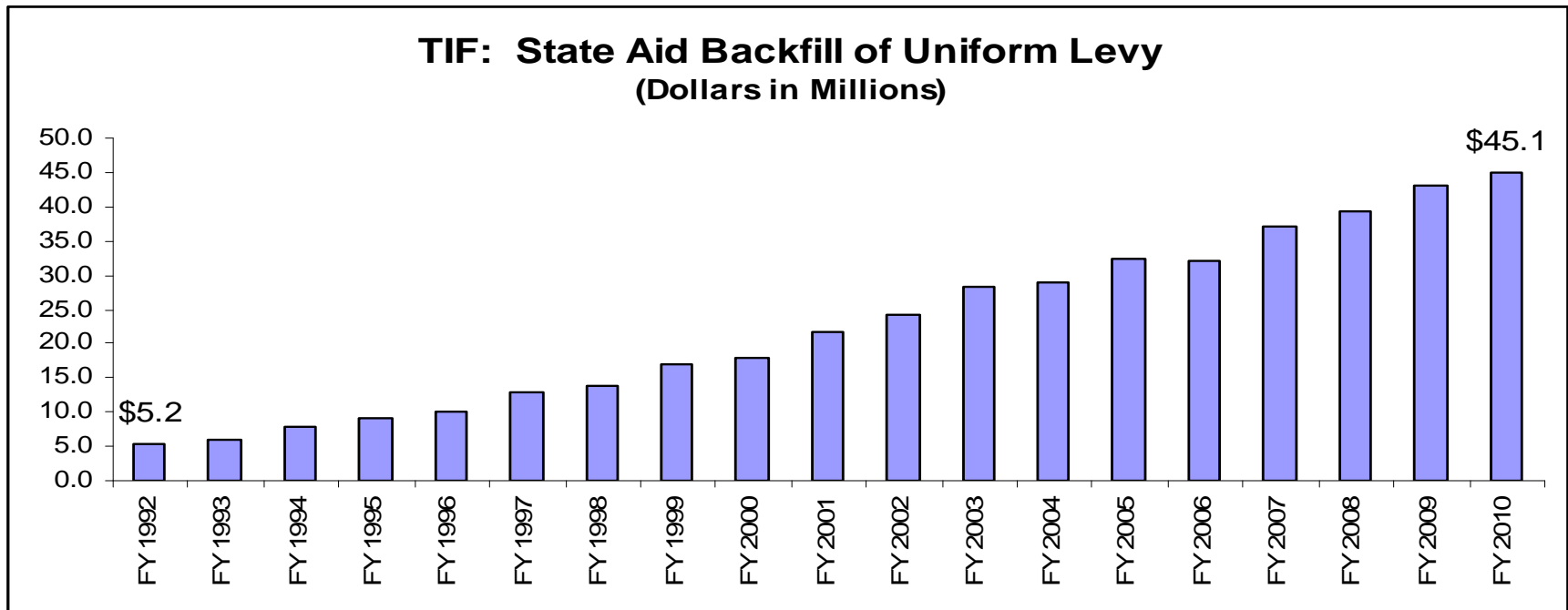
- Mechanism for financing economic development and the rehabilitation of slum and blighted areas
- Used by Cities (346), Counties (42), Rural Improvement Zones (2), and Community Colleges (3)
- TIF Revenues totaled \$260.0 million in FY 2009

TIF - Impact on Property Tax Rates

How does TIF impact school district property tax rates? In general:

- District sets rate based on total levy amount
- Levy rate is calculated by dividing levy amount by taxable valuation
- However, taxable valuation does not include TIF increment when calculating district rate (exception of debt and PPEL)
- School district property tax revenues not impacted, but rates are.

TIF – Impact on School Districts



- FY 2010 State aid backfill of uniform levy due to TIF = \$45.1 million
- Also - property tax rates increased for non-rate restricted levies due to TIF
- Debt Levy and PPEL are not impacted

TIF – Impact on School Districts

266 of 361 (73.7%) school districts impacted

Of the 266 - Percentage TIF'ed:

- Maximum = 38.3%
- Minimum = 0.0003%
- Range = 38.3%
- Average = 7.3%
- Median = 3.7%

Of the 266 - TIF Tax Rate Impact:

- Maximum = \$5.8582/\$1,000
- Minimum = \$0.0001/\$1,000
- Range = \$5.8581/\$1,000
- Average = \$0.9886/\$1,000
- Median = \$0.5026/\$1,000

Property Tax Alternatives

Note: These alternatives provide examples of property tax relief only. These examples are not to be considered LSA recommendations. Nor do they reflect the only property tax alternatives.

Income Surtax Expansion

- Income Surtax is a funding source used to replace property tax (Instructional Support, PPEL, Ed. Imp.)
- 295 school districts imposed for FY 2010
- FY 2010 total of \$92.5 million
- Max rate of 20.0% of income tax (4 districts)

Expand use to other levies:

- Remaining capacity in FY 2010 = \$429.6 million
- Statewide – Potential property tax rate reduction of \$3.57/\$1,000 of taxable valuation
- An issue – annual fluctuations in income tax

Eliminate Property Tax Portion of Adjusted Additional Levy

- Set Foundation Level at 100.0%
- Est. FY 2011 = an additional \$357.3 million of State aid
- All districts benefit

Increase Uniform Levy/Foundation Level

- Increase Uniform Levy and Foundation Level so overall State aid cost is “revenue neutral”
- FY 2011: \$6.40 Uniform Levy and 91.3% Foundation Level

Result:

- 151 Winners with \$15.4 million in property tax relief
- 210 Losers with \$15.5 million in property tax increase
- Hold harmless provision would cost \$15.5 million

Eliminate TIF Diversion of a Specific Levy

- Debt Levy and PPEL are not diverted to TIF

Example – Impact of Management Levy:

- FY 2010: 263 districts with Management Levy and TIF (\$98.2 Million)
- Management Levy Rate = \$0.9260
- Include TIF in the Management Levy Rate = \$0.8588
- Difference of \$0.0672 or \$7.1 million
- Impact by district will vary - some districts would reduce levy rate over \$0.30
- Issue: TIF projects may require funding to pay debt

Questions?

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LSA K-12 Website:

http://staffweb.legis.state.ia.us/lfb/docs/k-12_ed/k-12_ed.htm